OHIO AUDITOR OF STATE
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To: **All Public Offices**
Independent Public Accountants

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Subject: **Governmental Accounting Standards Board Statement No. 103 – *Financial Reporting Model Improvements***

Background Information

The Governmental Accounting Standards Board (GASB) Statement No. 103, *Financial Reporting Model Improvements*, modifies existing requirements related to the following:

- Management's discussion and analysis (MD&A)
- Unusual or infrequent items
- Presentation of the proprietary fund statement of revenues, expenses, and changes in fund net position
- Information about major component units in basic financial statements
- Budgetary comparison information
- Financial trends information in the statistical section

The requirements of this Statement apply to all Ohio state and local governments that prepare GAAP (Generally Accepted Accounting Principles) Statements, including those with a GAAP reporting requirement per Ohio Admin. Code (OAC) § 117-2-03(B). Some other governments may be subject to GAAP reporting requirements, such as through a debt covenant or grant agreement. GASB 103 is effective for financial statements for periods beginning after June 15, 2025. This means schools and other governments with a June 30 fiscal year end must apply GASB 103 to their June 30, 2026, GAAP financial statements; governments with a December 31 fiscal year end must apply the provisions to their December 31, 2026, GAAP financial statements. When a primary government implements GASB 103, all component units should also implement GASB 103 the same year.

GASB 103 has been incorporated into GASB's Codification which can be found on GASB's Governmental Accounting Research System (GARS) website. The Source Tracing Tool within GARS can be used to identify where the specific paragraphs within GASB 103 have been codified.

Applicability to non-GAAP entities is addressed later in this bulletin.

Management's discussion and analysis (MD&A) (GASB 103 ¶¶ 4- 8)

GASB 103 updates current guidance for preparing MD&A. State and local governments should review these updated requirements before drafting their GASB 103 MD&A as the following information summarizes the updated guidance. The updated guidance emphasizes the need to incorporate explanations for significant changes in balances and results of operations from the prior year in addition to identifying the amount or percentage by which they changed. Key items addressed within the updated MD&A guidance include:

- MD&A provides fiscal officers with the opportunity to present both short-term and long-term analyses of the government's activities.

- MD&A should be written in a manner that can be understood by users who may not have a detailed knowledge of governmental accounting and financial reporting.

- The analysis should assist users in understanding why balances and results of operations reported in the current year's financial statements reflected significant changes from the prior year rather than simply presenting the amounts or percentages by which they changed.

- The analysis in MD&A should avoid unnecessary duplication. Certain explanations may be relevant to the discussion in multiple sections of MD&A; however, subsequent discussions can reference an explanation previously provided.

- The MD&A should avoid "boilerplate" discussion.

- The MD&A should be objective, written in plain language, and based on currently known facts. This discussion should be balanced and include activities that have had either a significant positive impact or a significant negative impact on the government's balances and results of operations.

Paragraph 8 of GASB 103 identifies the following topics to be addressed in MD&A:

- Overview of the Financial Statements
    - Overview of the statements included in the basic financial statements and their relationship with each other.
    - Overview of the significant differences in the types of information provided by each financial statement.

- Financial Summary
    - Condensed financial information derived from the entity-wide financial statements comparing the current year to the prior year. Required financial statement elements are identified in GASB 103 ¶8 b.

- Detailed Analyses of financial position and results of operations for entity-wide statements and for each major fund, including the following:
    - Amounts or percentages of significant changes and explanations as to why those changes from the prior year occurred and indicate the magnitude of those changes.
        - Reference to the analysis of significant capital assets and long-term financing activity required below rather than duplicating information.
    - Facts, decisions, or conditions about which the user may not be aware.
    - Significant policy changes.
        - Such as changes in tax rates or fees, or the imposition of a hiring freeze.
    - Important economic factors.
        - Such as changes in the tax or employment bases, as applicable.
    - For governmental funds restrictions, commitments, and assignments that significantly affect the availability of fund resources for future use.

- Significant Capital Asset and Long-Term Financing Activity.

- Currently Known Facts, Decisions, or Conditions, including:
    - Trends in relevant economic and demographic data.
    - Relevant factors used to develop the subsequent year's budget that will provide an indication of how results of operations are expected to change in the subsequent year.
    - Expected changes in budgetary net position or fund balance.
    - Actions the government has taken related to postemployment benefit liabilities, capital asset improvement plans, and long-term financings that will affect the government in a subsequent period.

  - ◦ Actions other parties have taken that will affect the government in a subsequent period, such as new legislation or regulations imposed on the government.

An illustrative GASB 103 MD&A is provided within Exhibit 1 of Appendix C of GASB 103.

Unusual or infrequent items (GASB 103 ¶¶ 9-10)

GASB 103 replaces extraordinary and special items with unusual or infrequent items, as defined by GASB 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements*. (See GASB Codification Section 2200 *Annual Comprehensive Financial Report* ¶¶144-155) These same definitions were used prior to GASB 103, but they were combined with additional factors. These additional factors no longer impact presentation on the financial statements. However, consideration of events being within the control of management has shifted from being a factor in financial statement presentation to being a required note disclosure, when applicable.

Note disclosures related to unusual or infrequent items identify the program, function or identifiable activity to which an unusual or infrequent item is related and if that item is within the control of management.

Inflows and outflows related to unusual and infrequent items are placed individually on the proprietary operating statement as the last presented flow of resources prior to the net change in resource flows with each unusual or infrequent item presented separately rather than being netted.

Presentation of the proprietary fund statement of revenues, expenses, and changes in fund net position (GASB 103 ¶¶ 11-14)

GASB 103 incorporates a new category for noncapital subsidies within the proprietary fund statement of revenues, expenses, and changes in fund net position. The display for this statement is explained within paragraph 12 of GASB 103, and an illustration is provided within Exhibit 8 of Appendix C of GASB 103.

Paragraph 13 of GASB 103 provides definitions for operating revenues and expenses and for nonoperating revenues and expenses.

- Operating revenues and expenses are revenues and expenses other than nonoperating revenues and expenses. Items not included within the definition of nonoperating revenues and expenses are considered operating.

- Nonoperating revenues and expenses are

  - ◦ Subsidies received and provided,
  - ◦ Contributions to permanent and term endowments,

  - Revenues and expenses related to financing,
  - Resources from the disposal of capital assets and inventory, and
  - Investment income and expenses.

- Revenues or expenses that otherwise would be classified as nonoperating in most proprietary fund financial statements should be classified as operating revenues or operating expenses if those transactions constitute the proprietary fund's principal ongoing operations.

Paragraph 14 of GASB 103 provides the definition of subsidies:

- Resources received from another party or fund:
  - For which the proprietary fund does not provide goods and services to the other party or fund; and,
  - That directly or indirectly keep the proprietary fund's current or future fees and charges lower than they would be otherwise.

- Resources provided to another party or fund:
  - For which the other party or fund does not provide goods and services to the proprietary fund; and,
  - That are recoverable through the proprietary fund's current or future pricing policies.

- All other transfers.

However, as explained above, GASB 103 paragraph 13 addresses revenues that would otherwise be classified as non-operating may be reported as operating if it results from the entity's principal ongoing operations. Refer to the AOS FAQs for additional guidance pertaining to this exception for community schools and other single Enterprise reporting entities that are seeking interpretation assistance.

Information about major component units in basic financial statements (GASB 103 ¶15)

For state and local governments that have multiple discretely presented component units, each major component unit should be presented separately in the statement of net position and activities if it does not reduce the readability of the statements. If the readability is reduced, combining statements of major component units should be included within the basic financial statements after the fund financial statements. The ability to include condensed financial information for major component units within the notes to the financial statements will no longer exist.

Combining financial statements for nonmajor discretely presented component units should be included in the reporting entity's Annual Comprehensive Financial Report (ACFR) using the same methodology as combining (and individual fund) statements of the nonmajor funds of the primary government. (GASB Codification Section 2200 *Annual Comprehensive Financial Report* ¶.211)

Discussion for determining if a component unit is major can be found in GASB Codification Section 2600 *Reporting Entity and Component Unit Presentation and Disclosure* ¶.108.

Budgetary comparison information (GASB 103 ¶16)

GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, allowed local governments to report budgetary comparison schedules for the general fund and each major special revenue fund that has a legally adopted budget as either Required Supplementary Information (RSI) or as statements within the basic financial statements. GASB 103 eliminates the option to present this budgetary information within the GAAP basic financial statements thus requiring all state and local governments to present these budgetary comparison schedules within RSI.

GASB 103 requires separate columns on these budgetary RSI schedules to present the following variances:

- Variance between original and final budget amounts; and
- Variance between final budget amounts and actual results.

The following existing budgetary disclosures are required to be included within the notes to the RSI (GASB Codification Section 2400 *Budgetary Reporting .103):*

- Budgetary Basis of Accounting,
- Information that reconciles budgetary information to GAAP information (This information could be included as a separate schedule on the face of the financial statements.); and,
- Excesses of expenditures over appropriations in individual funds presented in the budgetary comparison schedules included in the RSI.

GASB 103 also requires an explanation of the following significant budgetary variations to be included in notes to the RSI for budgetary:

- Between original and final budget amounts; and,
- Between final budget amounts and actual results.

The above requirements apply to the budgetary schedules required to be included in RSI. When these RSI budgetary schedules do not demonstrate finance-related legal and contractual compliance, the governmental unit should present such additional schedules and narrative explanations in the ACFR as may be necessary to report its legal compliance responsibilities and accountabilities.

Additionally, when preparing an ACFR, budgetary comparison schedules for individual nonmajor special revenue funds and other governmental funds of the primary government should be included. (This requirement includes blended component units). (GASB Codification Section 2400 *Budgetary Reporting* ¶¶104 and 105)

Financial trends information in the statistical section (GASB 103 ¶17)

Ohio state and local governments engaged only in business-type activities or only in business-type and fiduciary activities that prepare an ACFR should include in the statistical section revenues presented by major source for their business-type activities, distinguishing between operating, noncapital subsidy, and other nonoperating revenues and expenses.

This new display requirement for the statistical section will align with the display requirement of the basic financial statements. Statistical information for years prior to those presented in the basic financial statements will not need updated.

Applicability to Non-GAAP Entities

Governments that prepare Other Comprehensive Basis of Accounting (OCBOA) statements will need to make these changes to their financial statements as these items would be considered display requirements.

Governments not statutorily required to prepare GAAP statements that prepare regulatory statements will not need to make any changes to their financial statements or note disclosures.

OCBOA and regulatory are both considered a special purpose framework. OCBOA follows the GAAP display requirements while regulatory follows a non-GAAP fund type display. MD&A and other required supplementary information (RSI) are part of the GAAP display considerations for OCBOA, but do not apply to regulatory. The following background discussion from the AICPA Practice Aid Series entitled *Applying Special Purpose Frameworks in State and Local Governmental Financial Statements*, page 33, can be considered related to MD&A and other RSI when preparing OCBOA statements:

> Because special purpose framework accounting and financial reporting standards applicable to state and local governments have not been established by GASB (that is, the designated GAAP standard setter for state and local governments in the United States), any such RSI required by GASB in GAAP basis financial statements is not considered RSI that must accompany special purpose financial statements. Therefore, in

> special purpose financial statements for state and local governments, there are no RSI requirements because there is no designated standard setter for such special purpose frameworks. However, state and local government financial statement preparers "may include" such GAAP RSI in their special purpose financial statements. In such circumstances, the information would be considered supplementary information that is required by law or regulation to be presented or supplementary information presented at the election of the preparer.

The above guidance aligns with the AICPA Audit and Accounting Guide for State and Local Governments Chapter 18 Financial Statements Prepared in Accordance with a Special-Purpose Framework ¶18.06. For audit purposes, supplementary information is split into two categories as follows:

- Supplementary information is considered information that is optionally included in a state and local government's financial report to supplement the basic financial statements and that is derived from, and directly relates to, the underlying accounting and other records used to prepare the basic financial statements, such as combining statements and schedules for nonmajor funds, for which the auditor is engaged to report on the information's fair presentation in relation to the financial statements as a whole; and,

- Other information includes financial and nonfinancial information (other than the financial statements and auditor's report thereon) that is included in a document containing audited financial statements and the auditor's report thereon, excluding RSI.

SLG 18.06 also allows for presentation as supplementary information or other information depending upon management's intent as well as the services auditors are engaged to provide.

> For the purposes of special-purpose financial statements, such information, if included, should be considered (*a*) other information or (*b*) supplementary information if the required conditions in AU-C section 725, *Supplementary Information in Relation to the Financial Statements as a Whole*, have been met, and the auditor has been engaged to provide an "in relation to" opinion.

It is the responsibility of entity's management to determine and communicate with their auditors if the presentation of budgetary comparison information is considered other information or supplementary information.

Transition

Changes adopted at transition to conform to the provisions of GASB 103 should be reported as a change in accounting principle in accordance with Statement No. 100, *Accounting Changes and Error Corrections,* including the related display and disclosure requirements. (GASB 103 ¶19)

Additional Resources Available on the Auditor of State's Website

The Auditor of State's Office has a Frequently Asked Questions (FAQ) document available related to GASB 103's implementation available on our website at:

> http://www.ohioauditor.gov/references/gasbfaqs.html.

The FAQs will be updated as additional information becomes available.

Questions

If you have any questions regarding the information presented in the Bulletin, please contact Local Government Services at the Auditor of State's Office at (800) 345-2519.

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